

**01044**

**1989/05/10**

US-PRC Investment Issues

RELEASED *E45 W*

Q: What is the extent of US investment in China?

A: CUMULATIVE US INVESTMENT COMMITMENTS TO CHINA SINCE 1979 REACHED \$3.9 BILLION IN 1988. ACTUAL PAID-IN INVESTMENT IS ESTIMATED TO BE BETWEEN \$2.0 AND \$3.0 BILLION, MAKING THE US CHINA'S SECOND-LARGEST INVESTOR BEHIND HONG KONG. TODAY, MORE THAN 400 US FIRMS OPERATE WHOLLY-OWNED SUBSIDIARIES OR JOINT VENTURES IN CHINA.

EARLY US INVESTMENT WAS CONCENTRATED IN OFFSHORE OIL DRILLING IN THE SOUTH CHINA SEA. US OIL FIRMS ARE ALSO INTERESTED IN ONSHORE EXPLORATION, PRIMARILY IN WESTERN CHINA, BUT HAVE RECEIVED LITTLE ENCOURAGEMENT FROM THE CHINESE. RECENT INVESTMENT HAS FAVORED ELECTRONICS, TEXTILES AND TEXTILE MACHINERY, FOOD PROCESSING, HOTELS, AND CONSTRUCTION IN THE GUANGZHOU AND SHANGHAI AREAS. THE CHINESE GOVERNMENT HAS ENCOURAGED JOINT VENTURES IN HIGH TECHNOLOGY, EXPORT PROCESSING, AND INFRASTRUCTURE DEVELOPMENT, WHICH THEY SEE AS CRITICAL TO MODERNIZATION.

US INVESTMENT IS EXPECTED TO GROW STEADILY IN THE NEXT FEW YEARS, ALTHOUGH INVESTORS WILL CONTINUE TO EXERCISE CAUTION. CHINESE PRIORITIES (EARNING FOREIGN EXCHANGE AND UPGRADING TECHNICAL AND MANAGERIAL EXPERTISE) OFTEN DO NOT MESH EASILY WITH US INDUSTRY'S CONCERNS FOR PROFITABILITY AND ACCESS TO THE CHINA MARKET.

DEPARTMENT OF STATE

IS/FPC/CDR

RRS

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